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From Cascading Taxes to 'One Nation, One Tax': A Theoretical Review of GST in India

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Abstract

The Goods and Services Tax (GST) implemented in India from 1 July 2017 is arguably the most comprehensive indirect tax reform by India since independence. GST, launched under the slogan 'One Nation, One Tax', aimed at replacing a fragmented, multi-layered indirect tax regime, which suffered from the cascading effect of tax-on-tax, with a single, destination-based, value-added tax administered jointly by the Union and the States. The paper provides a theoretical review of the conceptual evolution from cascading taxation to GST. It synthesizes post-2017 scholarship on four themes: the constitutional and structural architecture of GST; implications for cooperative fiscal federalism; differential impact on micro, small and medium enterprises (MSMEs); and relationship with revenue performance, economic growth and digital tax administration. The review draws on secondary, peer-reviewed literature, concluding that GST has substantially reduced cascading and unified India's domestic market, though unresolved issues relating to state fiscal autonomy, compliance burden for smaller firms and revenue volatility continue to shape the reform's trajectory. The paper ends with gaps identified for future empirical enquiry.

Keywords: Products & Services Indirect tax reform; cascading taxation; One Nation One Tax; fiscal federalism; India; tax

Introduction

Until July 2017, the indirect taxation system in India was marked by a multiplicity of central and state levies, viz. excise duty, service tax, value added tax (VAT), central sales tax, octroi, entry tax and a range of cesses, each administered under separate statutes with limited mechanisms for cross-crediting. Tax paid at any one stage of the production-distribution chain could hardly be set off against tax liability at the next and so the effective tax burden increased as goods moved from manufacturer to wholesaler to retailer to consumer. This phenomenon, commonly referred to as the cascading effect or 'tax on tax', inflated the final prices, distorted production decisions towards vertical integration, and partitioned the Indian market along the state lines (Dandona et al., 2024).

This structural inefficiency was addressed through the Goods and Services Tax, introduced through Constitution (One Hundred and First Amendment) Act, 2016 and operationalised from 1 July 2017. GST was designed to bring together India's twenty-nine states and seven union territories into a single common market – the political and economic promise of 'One Nation, One Tax' – by combining most of the central and state indirect taxes into a single, destination-based tax based on value addition at each stage and backed by a seamless input tax credit (ITC) mechanism. Nearly a decade after its inception, a voluminous and increasing literature on GST has emerged evaluating whether this promise has been delivered in practice, particularly with respect to fiscal federalism, compliance by small businesses and macroeconomic performance.

The paper does not provide new primary data, but is a theoretical and thematic review of the existing, mostly post-2017, scholarship on GST in India. The purpose is to plot the conceptual trajectory from the cascading, multi-point tax system that GST replaced, to the unified framework that it established, and to chart the major debates that have arisen in the literature since then.

Objectives of the Study

(i) To study the structural deficiencies of pre-GST indirect tax system in India with special reference to cascading effect of taxation from theoretical point of view.

(ii) To trace the constitutional and administrative architecture that enabled GST to operationalise the 'One Nation, One Tax' principle.

(iii) To review literature on the impact of GST on fiscal federalism, MSMEs, revenue performance and digital tax compliance post 2017.

(iv) To highlight existing theoretical and empirical gaps for future research.

Research Methodology

This study is qualitative and doctrinal-cum-review in nature. It is exploratory and descriptive, and relies solely on secondary sources (peer-reviewed journal articles, working papers and official documents published after 2017) found through academic databases and journal repositories. Sources were selected for thematic relevance to the cascading-tax-to-GST transition, recency, and publication in refereed outlets. The literature is synthesised thematically rather than by statistical meta-analysis, in keeping with the theoretical-review format of this paper.

The Pre-GST Regime and the Problem of Cascading Taxation

The previous regime imposed a central excise duty on a product at the factory gate and then levied state VAT on the same product at the same time when the product was sold within the same state on a price including the excise component. In effect, the VAT was levied on tax that had already been paid, not just on the value added, as credit could not be claimed across the central-state divide—the defining feature of cascading (Dandona et al., 2024). The problem was compounded by Central Sales Tax on inter-state transactions being non-creditable and incentivising structuring of supply chains around state borders rather than economic efficiencies.

Apart from the arithmetic burden on prices, the pre-GST regime imposed three related costs that are highlighted in the literature. First, it fragmented India into economically disconnected state level markets each with its own rate schedule and compliance procedure. Second, it created strong incentives for warehousing and logistics decisions to be driven by tax arbitrage rather than commercial logic. Third, it generated high compliance costs from multiple registrations, returns and audits across overlapping central and state authorities. It was in this context that the constitutional case for a single, credit-linked, destination-based tax gathered pace, culminating in the 101st Constitutional Amendment.

Constitutional Transition: The 101st Amendment and the Architecture of GST

The 101st amendment introduced parallel taxing powers for the Union and the States on the same base of goods and services. This was in contrast to the existing constitutional division under which the Centre taxed manufacture and services and the States taxed sale. This concurrency is realized as a dual-GST structure: For intra-state supplies, both the Central GST (CGST) and State GST (SGST) are charged simultaneously, while Integrated GST (IGST) is applicable for inter-state and import transactions. The SGST component is due to the destination state (Yadav, 2025).

At the heart of this architecture is the GST Council, a constitutional body comprising the Union Finance Minister and state finance ministers, empowered to recommend rates, exemptions and procedural rules. The Council has been described in the literature as the institutional embodiment of cooperative federalism in India's tax domain – a forum where the Centre and States jointly decide what was earlier a matter of separate, sovereign taxing authority (Mukherjee, 2020). The technical device for removing cascading is the input tax credit mechanism, whereby the GST paid on inputs is set off against the GST payable on output at every succeeding stage: tax is levied only on the incremental value added at each transaction, and the final consumer alone bears the cumulative, non-cascading burden.

'One Nation, One Tax': Theoretical Rationale and the Value-Added Principle

The phrase 'One Nation, One Tax' is best understood not as a claim that GST imposes a single uniform rate — India in fact retains a multi-slab rate structure — but as a claim about market unification: a single tax base, a common set of procedural rules and free movement of input tax credit across state lines, replacing twenty-nine-plus separate indirect tax regimes with one integrated system (Dandona et al., 2024). GST is theoretically based on the standard value-added tax (VAT) model, which is being adopted by over 160 countries. In this model, tax is charged in stages on the value addition and is rebated in full on exports avoiding cascading and taxation of business inputs (Joseph & Anitha Kumary, 2023).

This design carries an implicit trade-off that runs through much of the subsequent literature: the same mechanism that unifies the market and curbs cascading also requires States to cede a degree of fiscal sovereignty over indirect tax rates to a jointly governed Council, as unilateral state-level rate changes would reintroduce the very fragmentation GST was designed to remove. Hence, the theoretical promise of efficiency gains from market integration is offset by a real cost in terms of subnational fiscal autonomy – a tension explored at length in the fiscal federalism literature reviewed below.

Review of Literature

GST and Fiscal Federalism

A significant strand of post-2017 scholarship treats GST through the prism of Centre–State fiscal relations. Joseph and Anitha Kumary (2023), analysing India's GST paradigm with special reference to Kerala, argue that the reform was built on three pillars — revenue neutrality, tax-sharing between the Centre and the States and a compensation guarantee for revenue shortfalls. However, they find that revenue neutrality was not achieved in practice and tax effort at the state level did not improve after GST, leading them to conclude that the paradigm has tended towards coercive rather than genuinely cooperative federalism. Similarly, Mukherjee (2020) interrogates the functioning of the GST Council, noting that while it institutionalises joint decision-making, the practical balance of influence within the Council has significant implications for how much fiscal space individual states retain. Yadav (2025) characterizes the 101st Amendment as a monumental act of cooperative federalism, where both tiers of government yielded their exclusive taxing powers to bring about uniformity in indirect taxation, though he cautions that persistent Centre–State disagreements over compensation and rate-setting continue to challenge the resilience of that cooperation. In an extension of this analysis, Biswas (2024) considers the mechanics of revenue distribution and fiscal autonomy under the Integrated GST framework, and finds that, even as classification disputes and the complexity of rates continue to be sources of friction between the two levels of government, IGST has improved fiscal efficiency in inter-state trade.

GST and Micro, Small and Medium Enterprises (MSMEs)

A second major theme relates to the differential impact of GST on smaller firms. Dhillon and Gautam (2022) examined MSMEs in Punjab and found that the transition to GST led to significant increases in costs of implementation and compliance (new software and integration with GST Network (GSTN), training of staff and outsourced filing), which, together with demonetisation and the COVID-19 pandemic, imposed disproportionate strains on smaller units. Shetty et al. (2023) find a generally positive relationship between GST and gross value added of MSMEs, and also point out that market values of fixed assets of MSMEs responded positively to the indirect tax reform, indicating heterogeneous rather than uniformly negative effects on the sector. Based on Indian MSME data, Bhalla, Sharma and Kaur (2024) use ordinal regression and find that GST driven restructuring reduced the overall costs of firms and improved operative performance, attributing part of this gain to the shift to paperless compliance that the GSTN brought about. In contrast, Sureka and Bordoloi (2024), in a survey of 400 MSMEs, report that provisions restricting or blocking input tax credit have increased working-capital requirements and cash-flow constraints for a significant share of small and micro enterprises, identifying these provisions as a persistent structural friction. The literature collectively suggests that the theoretical promise of GST of a level playing field has been only partly realized for MSMEs, with formalization and ITC benefits being unevenly distributed against a background of actual compliance and liquidity costs.

GST, Revenue Performance and Economic Growth

A third theme relates to the macro-fiscal effects of the GST. Garg, Mittal and Garg (2025) use Auto-Regressive Distributed Lag (ARDL) modelling on data from August 2017 to March 2024, to find a statistically significant positive relationship between GST revenue and India's economic growth in the short and long run with positive impact of foreign direct investment and government expenditure and negative impact of fiscal deficit and inflation. Dandona et al. (2024), in their analysis of trends in revenues at the state level with respect to their impact on GDP, similarly find a general upward trend in GST collections since 2017, with a sharp drop in 2020–21 due to the pandemic and a recovery, but with persistent gaps between industrially advanced states and smaller, less industrialised states in absolute levels of collections. These findings empirically support the theoretical proposition that elimination of cascading and broadening of the tax base, the central logic of the 'One Nation, One Tax' design, translate into measurable gains in revenue buoyancy, even though the distribution of these gains across states remains uneven.

GST, Compliance and Digital Tax Administration

A fourth and growing theme relates to the digital infrastructure underpinning GST compliance. Deshmukh, Mohan and Mohan (2022) use an SAP–LAP framework with social-media analytics to describe the implementation of GST in India as a complex socio-technical process, where the GST Network is the central nervous system connecting taxpayers, banks and tax authorities. They argue that the perception of the reform among stakeholders has been influenced as much by the usability of this digital infrastructure as by the underlying tax design. The phased introduction of e-invoicing and e-way bill system since 2020 – gradually lowering the threshold from large to smaller turnover – has been touted in the literature as key to cracking down on fraudulent input tax credit claims and facilitating real-time reconciliation between buyers and sellers. It strengthens the anti-cascading logic of the ITC chain by making it difficult to break at any link.

Discussion: Theoretical Synthesis

Overall, this literature suggests that the shift from cascading taxation to GST has been broadly successful in its most narrow technical objective: the elimination of tax on tax through a continuous input tax credit chain, enabled by a common national base and increasingly common digital infrastructure. On this front, the claim of 'One Nation, One Tax' finds reasonable empirical support in the studies of revenue-buoyancy and market-integration (Garg et al, 2025; Dandona et al., 2024).

The reform’s wider claims, however, of equal benefit to all categories of taxpayer and of maintaining a cooperative balance between the Centre and the States are more contested. The fiscal federalism literature (Joseph & Anitha Kumary, 2023; Mukherjee, 2020; Yadav, 2025; Biswas, 2024) agrees with the observation that market integration has been achieved at a cost to the fiscal autonomy of the states and this is an inherent consequence of the concurrency introduced by the 101st amendment rather than a design flaw of the amendment. Similarly, the MSME literature (Dhillon & Gautam, 2022; Sureka & Bordoloi, 2024) suggests that the GST compliance and liquidity costs, while less overall than the pre-GST cascading burden, are unevenly distributed and disproportionately borne by smaller firms with limited administrative capacity – even as other studies in the same sector (Bhalla et al., 2024; Shetty Deepa Thangam

Geeta & Mathiraj, 2023) find net positive effects when digital compliance costs are offset by ITC and market-access gains. The divergence of MSME findings in itself suggests considerable heterogeneity by firm size, sector and state that a purely theoretical review cannot resolve and that future empirical work should directly tackle.

Conclusion and Directions for Future Research

This review has traced the theoretical trajectory from India’s pre-2017 cascading indirect tax system to the unified, credit-linked architecture of GST, and has synthesized post-2017 scholarship across four inter-related themes: constitutional architecture and fiscal federalism; impact on MSMEs; revenue and growth performance; and digital compliance infrastructure. The evidence largely supports the proposition that GST has reduced cascading and enhanced India’s stature as a single economic market. It also confirms that the reform has imposed real costs that are unevenly distributed and, in particular, around state fiscal autonomy and small-firm compliance burden, that tarnish the simplicity of the ‘One Nation, One Tax’ slogan.

Future research would benefit from longer time-series analyses that separate pandemic-related shocks from the underlying structural effects of GST; disaggregated, state- and sector-level studies of MSME impact; and a closer examination of how successive rate-rationalisation exercises by the GST Council reshape the balance between simplicity, revenue adequacy and equity that the reform originally set out to achieve.

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